



## Overview





To the Honorable Mayor and City Council:

## **2011-12 BUDGET TRANSMITTAL**

I am pleased to submit the Fiscal Year 2011-12 Operating Budget and Capital Improvement Program for the City of Carlsbad. The combined budget totals \$258.5 million, with projected revenues of \$230.6 million. Revenues received in prior years will be used to fund some capital improvement appropriations in 2011-12. Of the total budget, \$193.8 million, or 75 percent, will be used to fund the operations of the city, while \$64.7 million, or 25 percent, will go towards capital improvements throughout Carlsbad. Our goal has been to prepare a comprehensive financial plan for services, programs, and capital projects that will assist the Council in the achievement of its vision for Carlsbad.

The ongoing recession has had a significant effect on city finances, although the city has not been as negatively impacted as other parts of the state and nation, largely due to Carlsbad's careful planning, responsible management and diverse local economy. General Fund revenues for FY 2011-12 are anticipated to be \$2.3 million, or 2.1 percent, higher than revenues received in the previous fiscal year. Overall, General Fund revenues are still down about \$8 million, or six percent, from pre-recession levels. This decline in revenues has dictated a corresponding decline in the amount budgeted for the operations of the city. By planning ahead, the city was able to meet this challenge by making reductions to its operating budget over the past three years, avoiding major changes this fiscal year. These reductions were targeted to areas with the least direct effect on core city services. The FY 2011-12 budget was developed with an emphasis on maintaining an expenditure level in line with anticipated revenues and maintaining the important services provided to the citizens of Carlsbad. There are no new programs, services or positions being added this year.

The economic recession has negatively impacted the General Fund's largest revenue sources, including property taxes, sales taxes and transient occupancy taxes, with all of these seeing decreases over the last few years. The city's revenues from property taxes are expected to decrease an additional 0.2 percent in the coming year, in addition to the four percent decrease already realized since their peak in FY 2008-09. Both sales taxes and transient occupancy taxes are expected to increase slightly in the coming year, after both seeing sharp decreases of about 20 percent since their 2007-08 peak. For sales tax, significant gains of about 15 percent were seen in Fiscal Year 2010-11 and another three percent increase is expected for 2011-12. For FY 2011-12, transient occupancy taxes are expected to increase by 5.3 percent from the previous year. The state and U.S. economies continue to face challenges, and a slow economic recovery has been taken into consideration in the revenue forecast.

Overall, the city's total operating budget for FY 2011-12 has increased by \$5.5 million, or 2.9 percent, from the previous year. This is partially due to budget increases in the Water Enterprise Fund, resulting from increases in the cost of purchasing water and recycled water. In addition, the General Fund operating budget increased by \$2.4 million, or 2.2 percent, as compared to the previous year. This is mainly attributable to previously





negotiated personnel contract increases, as well as a change in the way the General Fund transfers are budgeted for the city's municipal golf course for debt service and operations.

The city's total Capital Improvement Program contains \$451 million through the end of the forecast horizon, for approximately 265 projects to build or improve the city's roads, parks, water and sewer infrastructure and civic projects. Active projects for the coming year include installation of new software to synchronize traffic signals and improve traffic flow, the development of Alga Norte Park and Aquatic Center and the completion of the Joint First Responder's Training Facility. In addition, there are numerous road maintenance projects, drainage improvements, and several significant water and sewer improvement projects included in this year's CIP.

The development of the budget also focused on the long-term impacts of the recession; ensuring the creation of a sustainable community, while continuing to support the quality of life that our citizens value. The FY 2011-12 budget continues the city's contribution to the Infrastructure Replacement Fund, which will ensure that resources are available when needed to replace the city's streets, sidewalks, buildings and other infrastructure. The City of Carlsbad has recently transitioned out of its high growth/high development stage into one focusing on sustaining the quality of the city over the long term. That means that we are just beginning to experience the significant cost of replacing infrastructure as it ages. The Infrastructure Replacement Fund is used to accumulate funds and pay for the replacement of the city's infrastructure, as needed. This year's budget allocation is approximately 6.5 percent of General Fund revenues, for a total of a \$7.4 million allocation for this program in FY 2011-12.

One of the systems in place to keep the city financially strong is the city's General Fund reserve policy, which helps to ensure that adequate levels of fund balance are available to help mitigate current and future risks. The reserve can be used to address unanticipated events including emergencies and natural disasters. The City Council has implemented a minimum General Fund reserve level of 30 percent of the General Fund operating expenditures and a target of achieving a reserve of up to 40 to 50 percent of the General Fund operating expenditures. The target reserve will be pursued whenever fiscally possible and financially prudent to do so. The current reserve is projected to be about 47 percent of General Fund operating expenditures for FY 2011-12.

The City of Carlsbad's long history of fiscal discipline along with a well-diversified revenue base has helped the city earn a AAA credit rating; the highest possible. The city will continue to maintain best practices in the management of its finances and include long term planning tools in its forecasting to ensure that decisions made today will also provide positive impact to the city in the future.

I appreciate the City Council for providing the long-term vision and support that are crucial for the city to achieve its goals. I would also like to recognize the contributions of city staff for not only reducing their operating spending, but for doing it in such a way as to minimize the impact to our community. The City of Carlsbad is well-positioned to maintain an excellent quality of life for our residents and a strong economic base for local businesses.



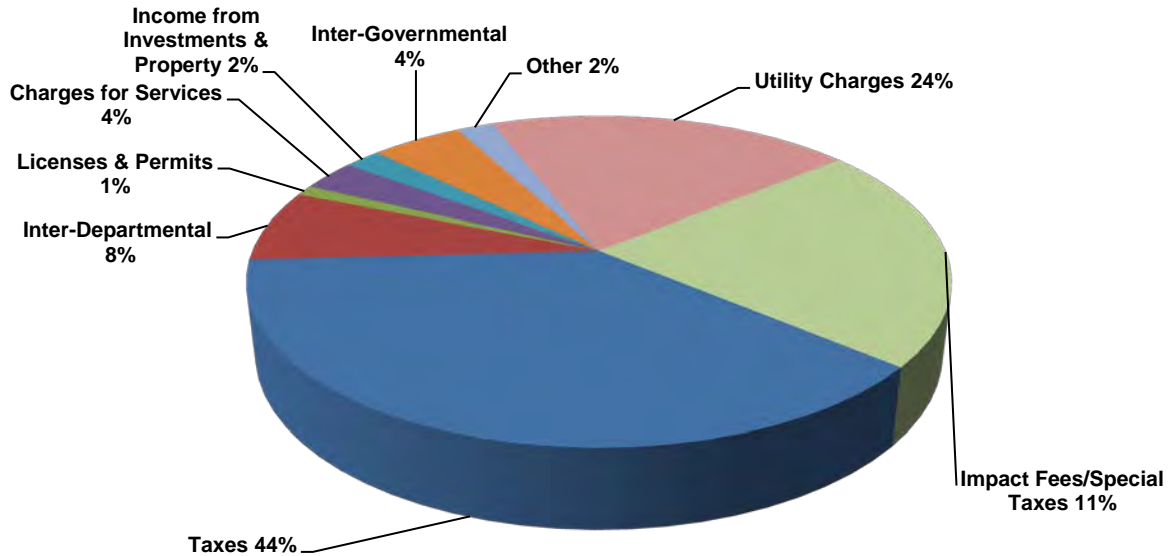
**LISA HILDABRAND**  
City Manager

## CITY OF CARLSBAD BUDGET HIGHLIGHTS

### CITY OF CARLSBAD BUDGET HIGHLIGHTS FISCAL YEAR 2011-12

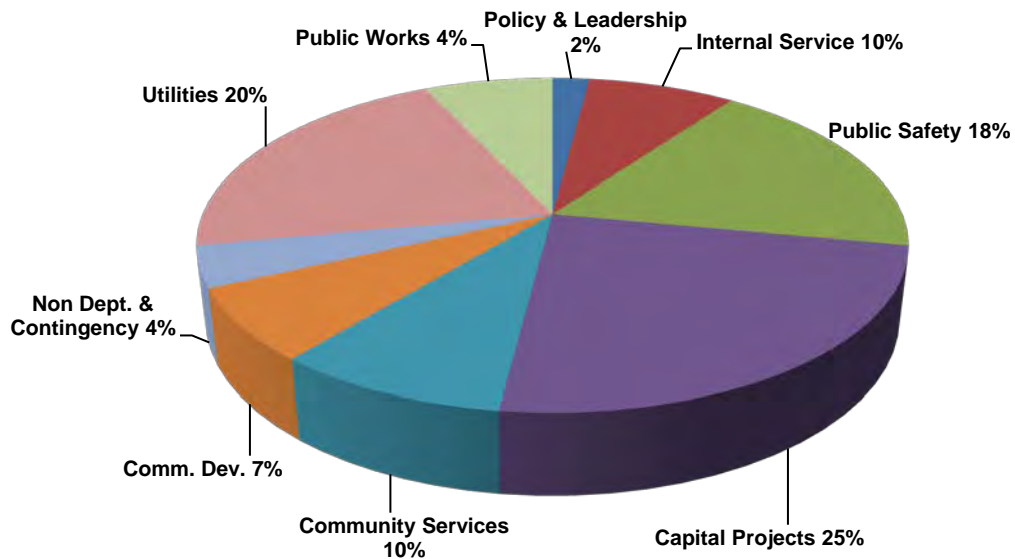
#### WHERE THE MONEY COMES FROM...

**ESTIMATED REVENUES \$230.6 MILLION**



#### WHERE THE MONEY GOES...

**ADOPTED BUDGET \$258.5 MILLION**





## CITY OF CARLSBAD BUDGET HIGHLIGHTS

The city's budget is comprised of two pieces; the operating budget and the capital improvement program budget (CIP). The CIP provides the funds to build the parks, roads, buildings, and other infrastructure of the city while the operating budget provides the money to staff and operate the facilities and infrastructure as well as provide important services to the citizens and visitors of Carlsbad. The operating budget totals \$193.8 million and is expected to generate \$197.2 million in revenues. The CIP contains the current year budget allocation of \$64.7 million and outlines approximately 265 future projects at a total cost of \$451 million through buildout of the city. Capital revenues for Fiscal Year 2011-12 are estimated at \$33.4 million. The capital projects include parks, civic facilities, as well as infrastructure needs anticipated for the future that are not expected to be constructed by developers.



The budget overview on the following pages will provide the reader with a good understanding of the budget process and the economic profile of the city as well as with a broad overview of the services and projects planned for the 2011-12 Fiscal Year. This section also addresses debt management, including a schedule of the outstanding bond issues. More detail on the city's numerous programs and projects can be found throughout the remainder of the document.

### BUDGET PROCESS

At the beginning of each year, the City Council meets to review and update the Council's five-year vision statements and to develop citywide strategic goals. This direction helps staff prioritize city programs, projects and services, as well as the resources required to fund them. This year, the Carlsbad City Council set strategic goals that maintain top quality services in the most efficient manner and position the city to benefit from a strong and diverse local economy. A number of priorities were established to support economic development, including a program to attract and retain businesses and to improve the amount and quality of information available to businesses. To promote financial health, we will continue to streamline city operations and related processes and to maximize the value of

#### **City of Carlsbad Community Vision**

##### ***Small town feel, beach community character and connectedness***

Enhance Carlsbad's defining attributes—its small town feel and beach community character. Build on the city's culture of civic engagement, volunteerism and philanthropy.

##### ***Open space and the natural environment***

Prioritize protection and enhancement of open space and the natural environment. Support and protect Carlsbad's unique open space and agricultural heritage.

##### ***Access to recreation and active, healthy lifestyles***

Promote active lifestyles and community health by furthering access to trails, parks, beaches and other recreation opportunities.

##### ***The local economy, business diversity and tourism***

Strengthen the city's strong and diverse economy and its position as an employment hub in north San Diego County. Promote business diversity, increased specialty retail and dining opportunities, and Carlsbad's tourism.

##### ***Walking, biking, public transportation and connectivity***

Increase travel options through enhanced walking, bicycling and public transportation systems. Enhance mobility through increased connectivity and intelligent transportation management.

##### ***Sustainability***

Build on the city's sustainability initiatives to emerge as a leader in green development and sustainability. Pursue public/private partnerships, particularly on sustainable water, energy, recycling and foods.

##### ***History, the arts and cultural resources***

Emphasize the arts by promoting a multitude of events and productions year round. Cutting edge venues to host world class performances, and celebrate Carlsbad's cultural heritage in dedicated facilities and programs.

##### ***High quality education and community services***

Support quality, comprehensive education and lifelong learning opportunities, provide housing and community services for a changing population, and maintain a high standard for citywide public safety.

##### ***Neighborhood revitalization, community design and livability***

Revitalize neighborhoods and enhance citywide community design and livability. Promote a greater mix of uses citywide, more activities along the coastline and link density to public transportation. Revitalize the downtown Village as a community focal point and a unique and memorable center for visitors, and rejuvenate the historic Barrio neighborhood.



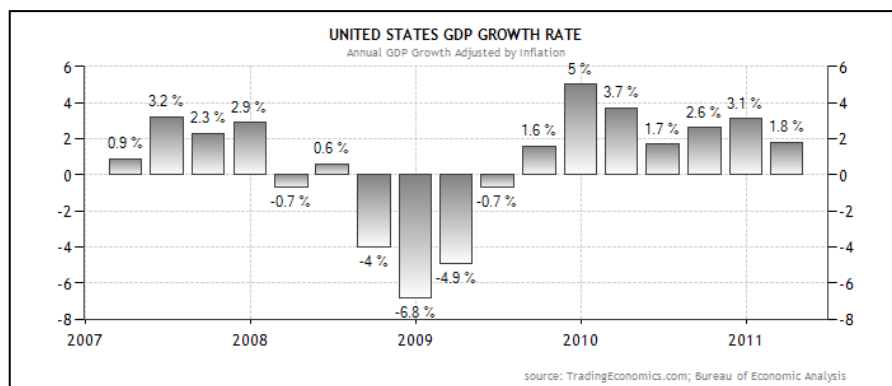
## CITY OF CARLSBAD BUDGET HIGHLIGHTS

city-owned assets. Other key strategic goals address safe and efficient transportation and circulation, ongoing acquisition and maintenance of parks and open space, and a continued commitment to balanced development, cultural arts, and a safe community.

Based on this direction, as well as input received at public workshops, city staff finalizes the overall city work plan and develops the annual budget. The City Council adopts the formal budget for all funds prior to the beginning of each fiscal year and may amend those budgets throughout the year as necessary. Expenditures may not exceed budgeted amounts at the fund level. Budgetary Control is maintained through the city's accounting system.

Carlsbad's operating budget is a tool that guides the achievement of Council's vision, goals, and priority projects for the city. The budget allocates resources to city programs in accordance with priorities established by residents and the Council. Thus, it is an integral part of making Carlsbad a wonderful community in which to live, work and play. In addition, the budget is fiscally conservative and balanced, and provides a blueprint to effectively sustain the community and essential city services far into the future.

## ECONOMIC PROFILE



The **US economy** began to show signs of recovery last year, indicated by a 3.1 percent increase in the gross domestic product (GDP) in the final quarter of 2010 and unemployment figures receding from a high mark of almost ten

percent. The tepid recovery appeared to stall in the first quarter of 2011, however, as GDP increased by only 1.8 percent and unemployment edged up slightly. This slowdown in the recovery, however, may reflect the effects of bad weather and the earthquake and tsunami in Japan. Fears about deflation have subsided as food and energy commodity prices have pushed the Consumer Price Index (CPI) higher in the past year, as indicated by a 3.2 percent increase, year over year, in April. Economists maintain a modestly optimistic outlook for recovery and, according to the most recent UCLA Anderson Forecast, real GDP should grow at three percent over the next three years and unemployment should continue to fall slowly, dipping below eight percent in 2013.

A continuing threat to the economic recovery is the housing market, as prices continue to dip, nationwide. The Case-Shiller Home Price Indices reflected a decrease of 3.3 percent in February (year-over-year); prompting concern that housing may continue to be a drag on the recovery. David M. Blitzler, Chairman of the Index Committee at Standard & Poors, said, "There is very little, if any, good news about housing. The 20-City Composite is within a hair's breadth of a double dip."

The national economy appears to be recovering slowly, but numerous challenges lie ahead. The Zero Interest Rate Policy (ZIRP) pursued by the Federal Reserve for the past two years is expected to end in 2012, as employment improves and inflation reaches normal rates. Long-term interest rates are expected to begin creeping up in 2011, but economists caution that movements in interest rates are difficult to forecast, given the current level of federal deficits.

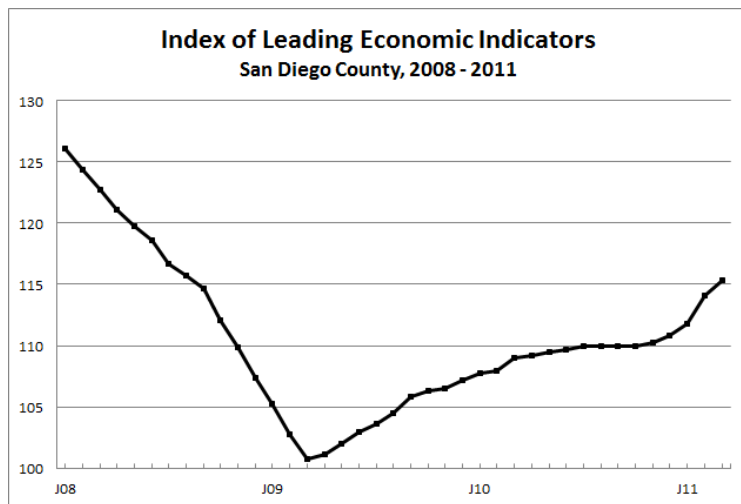


## CITY OF CARLSBAD BUDGET HIGHLIGHTS

The outlook for **California's economy** is very slow growth over the next few years. Unemployment, which has remained above 12 percent since late 2009, is not expected to fall below double-digit levels until 2013. The state has shed 1.3 million jobs during the recession, and many of these jobs, in sectors such as construction and finance, are not expected to return. California's recovery will be led by increases in education, health care, exports, technology, and some modest activity in residential construction. However, the recovery will be bifurcated, with early economic recovery in coastal California and much slower economic growth inland.

According to the UCLA Anderson Forecast, employment in 2011 is expected to grow at 1.1 percent and begin accelerating in 2012 and 2013, as California capitalizes on increases in U.S. consumption levels and greater exports to support growing economies in Asia. Taxable sales are forecast to increase slightly (1.2 percent) in 2011 and begin rising faster in 2012 and 2013, to 5.1 and 4.7 percent, respectively. As economic activity increases, real personal income is expected to grow by a modest 1.3 percent in 2011 and increase to 3.7 percent and 4.1 percent, respectively, in 2012 and 2013.

The **San Diego economy** outlook is positive, as the county appears to be slowly emerging from an economic morass. Unemployment fell from a high of 10.9 percent to 10.2 percent in March, and 24,700 jobs were added since March 2010. Professional and business services have posted large gains in recent months, as have the leisure and hospitality sector. However, recovery in the San Diego labor market is slow and, assuming the same growth in employment seen in March, it will take four years to get back to levels of unemployment seen in December 2007. The USD Index of Leading Economic Indicators continued a two-year trend, increasing by almost six percent compared to March 2010.



An increase in residential unit permits issued buoyed the Indicator, as multi-family units authorized increased almost three-fold compared to the first quarter of 2010. Other positive economic news included falling initial claims for unemployment, down for the third month in a row, and help wanted advertising continued to increase during the same period. Also, local consumer confidence increased for the 11<sup>th</sup> consecutive month. Modest improvement in the San Diego employment numbers

contributed to a drop in office space vacancy, which fell by 1.4 percent, to 16.8 percent, compared to the first quarter of 2010. CBRE Econometric Advisors indicate positive growth in office workers through the end of 2012.

The chart above reflects historical movement in the USD's Leading Economic Indicators. Despite relatively high unemployment and weak housing sales indicators, the economic outlook for the county is positive.

**Carlsbad's economy** is tied closely to that of the San Diego region. For FY 2010-11, property taxes are expected to decline by approximately 2.6 percent over the previous year. Transient Occupancy Tax (TOT), a gauge of the tourism industry, is expected to end FY 2010-11 showing a 2.2 percent decrease due to lower revenues at the city's two largest resorts, and sales taxes are expected to end FY 2010-11 with an increase of 15.4 percent due to the slowly recovering economy, mainly in retail and auto sales. Overall the city is anticipated to end FY 2010-11 with a 1.2 percent decline or \$1.4 million less in General Fund revenue compared to FY 2009-10.



## CITY OF CARLSBAD BUDGET HIGHLIGHTS



Housing prices in Carlsbad continued their downward trend during the last year. According to DataQuick, the median price for a Carlsbad home fell to \$626,000 in April, down over eight percent compared to last year. The total assessed values in the city are close to \$24 billion, a decrease of approximately one percent compared to the prior fiscal year (FY 2009-10). According to recent growth projections prepared for the city, Carlsbad will add 1,033 units over the next five fiscal years and develop an additional 1.6 million square feet of

commercial and industrial space.

Since 1992, commercial and industrial development in Carlsbad averaged approximately 1.1 million square feet per year. As opportunities for new development diminish, commercial and industrial development is tapering off, falling to an average of slightly under 300 square feet per year over the next five fiscal years. Due to the economic recession, commercial and industrial development now is expected to average 300,000 square feet per year over the next five years. Large industrial commercial developments in the next five years include Bressi Ranch, Carlsbad Raceway and Palomar Forum, Dos Colinas Retirement Community, and the Floral Trade Center. Commercial office space vacancy has witnessed a decline over the past year, falling from over 30 percent in the last quarter of 2009 to just over 24 percent in the first quarter of 2011. Industrial vacancy fell for the same period, from almost 14 percent to 13 percent.

Commercial development has brought much needed entertainment and shopping venues to citizens and visitors alike, as well as generating additional sales taxes to help pay for city services. Carlsbad is home to Car Country Carlsbad – an auto mall; the Carlsbad Premium Outlets – a specialty outlet center; Plaza Camino Real – a regional shopping mall; a Costco center; and the Forum at Carlsbad – a commercial center with upscale retail shops, restaurants and other commercial uses.

Development has also enhanced Carlsbad's reputation as a destination resort for tourism. The city is host to a major family theme park: Legoland, and has two luxury resorts available for its visitors: the Park Hyatt at Aviara and the La Costa Resort & Spa. There are also a number of other quality hotels and motels in the city, with the most recent additions being the Sheraton Carlsbad Resort and Spa, Homewood Suites and Hampton Inn.

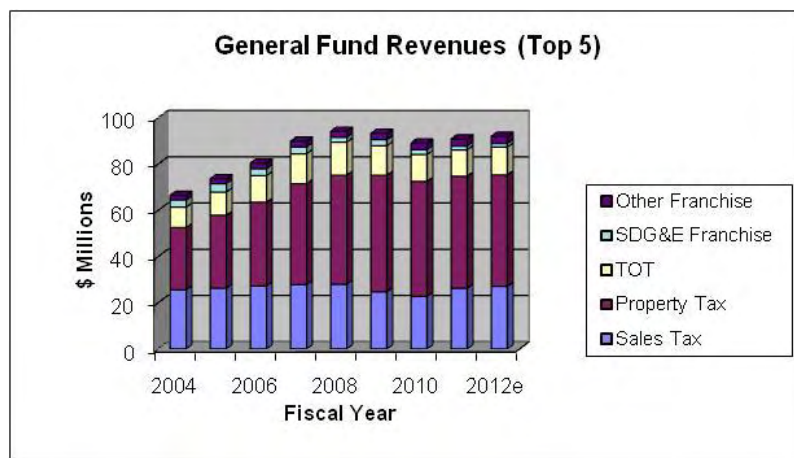
The City of Carlsbad opened a municipal golf course in the summer of 2007 which has further enhanced the tourism attractions the city offers. The municipal golf course, The Crossings at Carlsbad, is an 18-hole, destination golf course set in the rolling hills and canyons of Carlsbad. With ocean views, high quality golf experience, a first class restaurant and clubhouse, and linkages to hiking trails, The Crossings at Carlsbad is a destination spot for golfers and non-golfers alike.

It is the Council's goal to ensure that the city remains in good financial health, and there are a number of steps the city has taken to attain that goal. One of the steps is the Growth Management Plan. This plan was adopted by the citizens to ensure that all necessary public facilities were constructed along with development. It also ensures that a financing plan is in place to pay for the facilities prior to the development of the property.

## CITY OF CARLSBAD BUDGET HIGHLIGHTS

In addition to the Growth Management Plan, the city also prepares a long-term financial model for both the capital and operating needs of the city. With a growing city such as Carlsbad, it is imperative that we plan for the impacts of the economy, serving new development and operating new public facilities, as well as planning for capital needed to build them. Thus, the city prepares a ten-year operating forecast for the General Fund, and a 15+ year Capital Improvement Program. As part of the Capital Improvement Program, the city annually calculates the amounts needed to pay for the various projects, and calculates the anticipated operating budget impacts. In this way, the city can anticipate the effects of development from both a capital and an operating perspective.

One important initiative the city has undertaken to ensure its financial health is the development of an Infrastructure Replacement Fund. With this fund, the city sets aside money on an annual basis for major maintenance and replacement of its infrastructure. Much of the city's infrastructure is relatively new; thus, the city is just now experiencing the impact of maintenance requirements. By setting aside funds now, the citizens of Carlsbad can be assured that the proper maintenance and replacement, as needed, will be performed on streets, parks and many facilities for which the city is responsible.



As national and local economic conditions begin to improve, Carlsbad is well positioned to reap the benefits of a diverse business composition. Over the past decade, the city has developed an economic base that attracts business, tourism, and retail consumers. The city hosts four regional shopping areas within its boundaries; an auto mall, a large regional mall, an outlet center, and a high-end retail center in the southern part

of the city called The Forum. The city is also host to Legoland, a family theme park, and a number of renowned resorts, including the Park Hyatt and La Costa Spa and Resort. All of these factors, combined with relatively stable residential home values, provide a strong revenue base to support the high level of city services for our residents. In FY 2011-12, the city is expected to generate over \$87 million, or 75 percent of General Fund revenues, from three sources: property taxes, sales taxes, and transient occupancy taxes (TOT).

Overall, for FY 2011-12, General Fund revenue is projected to increase by approximately two percent from the previous year's estimates. Most sources of tax revenue, with the exception of property taxes, are expected to increase slightly in FY 2011-12. Sales tax and TOT revenues are projected to increase by approximately three and five percent, respectively, due to the improved local economic conditions experienced to date. Home values, however, continue to decline, and the County Assessor has estimated that the city should expect assessed values to decrease by almost 0.2 percent for FY 2011-12. New building permits are expected to decrease slightly and the development related revenue items have been adjusted accordingly for Fiscal Year 2011-12. More information on all of the city's revenues and programs can be found in the later sections of the document.



## **CITY OF CARLSBAD BUDGET HIGHLIGHTS**

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**STATE OF CALIFORNIA** – In January, California swore in Governor Jerry Brown, who inherited an ongoing budgetary crisis that has been exacerbated by the most severe economic downturn since the Great Depression. The State of California has been in a severe fiscal crisis for a number of years and has relied on a number of dubious strategies to balance its budget, including reliance on one-time revenues, borrowing from various state funds, and raiding city, county and special district funds. Federal and state maintenance of effort requirements, legal constraints and the passage of several State propositions in the November elections have further limited the state's options for addressing the ongoing structural imbalance.

In May, the Governor released the revised budget for Fiscal Year 2011-12. The revised budget forecasts a deficit of \$12 billion through Fiscal Year 2011-12, an improvement over January estimates of \$26.6 billion. This improvement was due, in part, to an additional \$6.6 billion in higher-than-expected tax revenues. An additional \$2.4 billion in solutions are currently pending in the Legislature and, combined with a proposed reserve of \$1.2 billion, this leaves a projected deficit of \$10.8 billion. Solutions proposed by the Governor include five-year extensions to the temporary one percent state sales and use tax rate and the 0.5 percent Vehicle License Fees (VLF), as well as a four-year extension to the 0.25 percent surcharge on income tax. The Governor also proposes the elimination of redevelopment agencies and a onetime shift of \$1.7 billion in property tax increment for state purposes. If the proposed extension of the VLF is approved this would allow for the continued funding of the Citizens' Option for Public Safety and booking fee subvention programs.

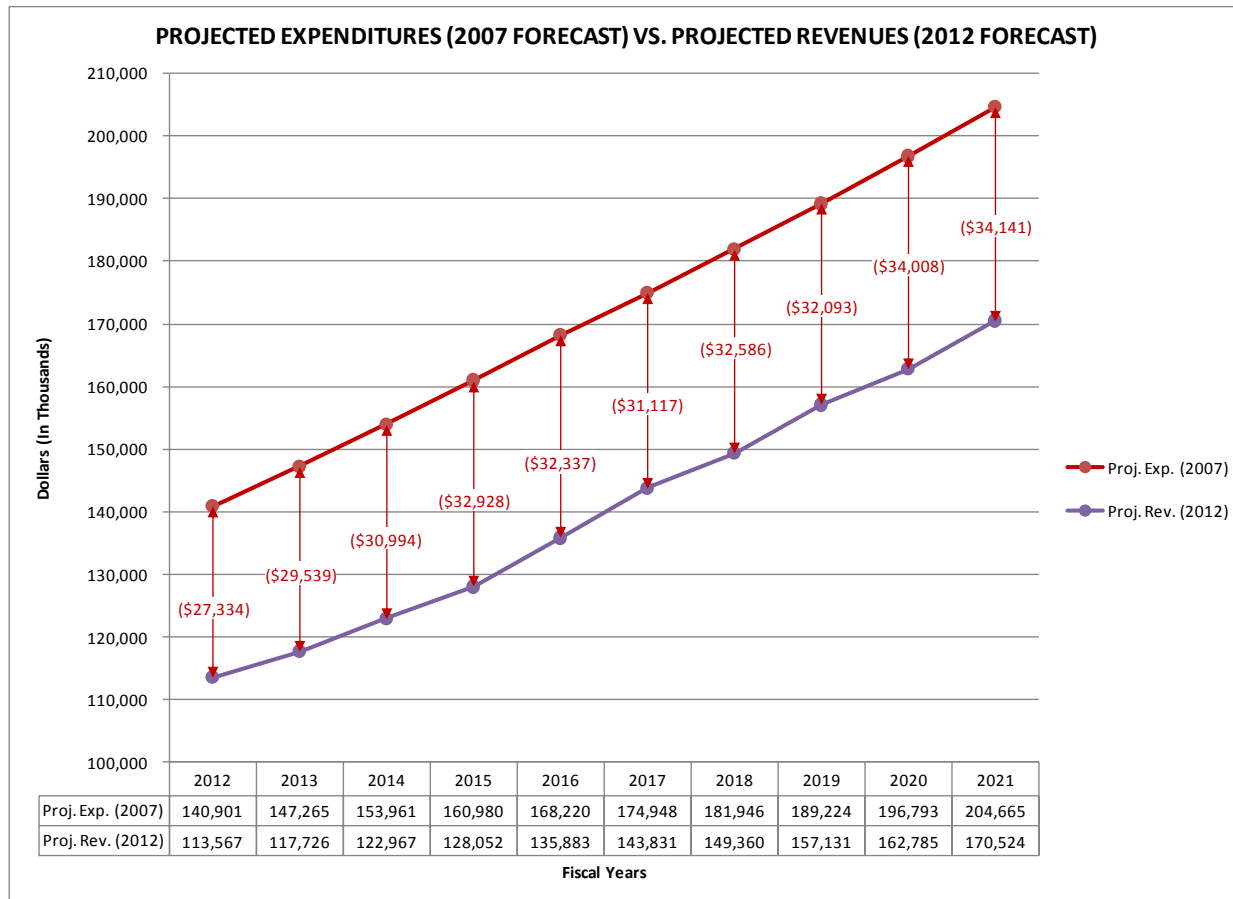
As a result of continued attacks on cities' revenues, a coalition of cities, counties and special districts supported Proposition 22, which was approved by the voters in November 2010. The measure included a provision to stop the Legislature from raiding local government and gas tax funds that are programmed at the local level for vital services. Proposition 22, along with 2004 Proposition 1A, should provide added protection to local agencies in the future. Also passed in the November election were Propositions 25 and 26. Proposition 25 requires forfeiture of legislative pay if the June 15 Constitutional deadline for passing a budget is missed. This measure provides greater incentive for the timely adoption of the state budget, allowing local governments to include the effects of state decisions in their budgets. Proposition 26 expanded the definition of "tax," leaving state and local governments with less discretion in implementing new revenue sources.

### **LOOKING FORWARD**

In order to strategically address the future needs of the city and to ensure that we maintain a structurally balanced budget in the long term, the city prepares a ten-year financial forecast. Revenue projections are developed based on current and forecasted economic variables at the national, state, and local levels, and provide city leaders with some measurement of future capacity to support city programs and services. In recent years, revenue growth has become more difficult to project in the long-term, as we find ourselves in an economic climate that changes rapidly and unpredictably, and the forecast allows decision makers to adjust for these changes. For example, as the city was preparing its ten-year forecast in FY 2006-07, it appeared that General Fund revenues were going to continue on a path of strong annual growth and were forecast to provide sufficient resources for expenditures in the General Fund. The upper line on the graph on the following page reflects the growth in General Fund expenditures as originally projected in the ten-year forecast back in FY 2006-07. The lower line on the chart reflects the projected General Fund revenues as currently projected in the FY 2011-12 ten-year forecast. The difference between the two lines indicates the potential deficit the city would have experienced in the General Fund if changes had not been made. The ten-year forecast enabled the city to correct for reduced revenues resulting from the recent downturn in the economy and make changes that avoided potential deficits. The ten-year forecast is updated continuously to

## CITY OF CARLSBAD BUDGET HIGHLIGHTS

avoid these potential pitfalls and to ensure that we identify and resolve fiscal challenges and continue to develop a balanced and responsible budget.



Over the past several years, the city has addressed the budgetary challenges brought on by the recent recession and taken deliberate measures to continue to allocate resources in a responsible manner, minimizing the impact to users of city services. These measures included a reduction in full-time equivalent (FTE) positions, delaying the construction of non-essential capital projects, reducing the funding for capital outlay and goal projects, reducing and/or eliminating cost of living salary increases, using technology and other tools to create efficiencies, and reducing certain non-essential service levels with a minimal impact to the community.

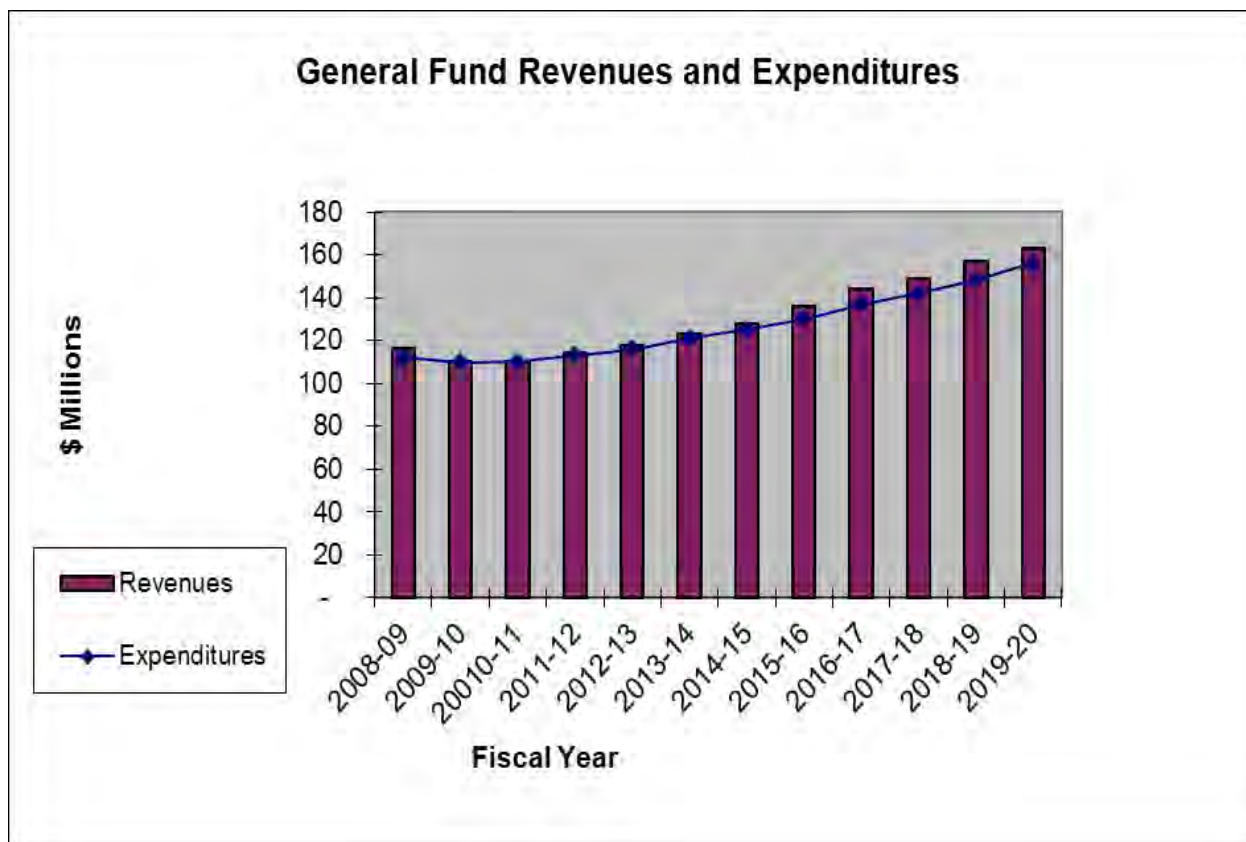
The ability to anticipate changes in revenue sources and to balance those resources against the costs related to ongoing and future programs, services, and infrastructure requirements is critical to the financial health of the city. The city relies on the General Fund forecast to effectively manage fiscal resources and map a sustainable and responsible path for attaining the goals of the community. The tumultuous economic environment experienced in the past few years makes this long-term perspective even more important.

The forecast assumes limited growth in residential and commercial development over the next decade and captures the expected revenue impacts from major projects that are expected to be completed during the forecast period. The forecast also assumes that the Carlsbad Crossings Golf Course will require an ongoing subsidy from the General Fund and, while this subsidy is expected to decrease over time, it is no longer treated as a loan. The operating costs of new city facilities supported by the General Fund, such as Alga Norte Park, are also captured in the ten-year forecast. Economic conditions at the national, state, and local level are expected to continue improving at a modest rate and to provide a boost to most of our major sources of



## CITY OF CARLSBAD BUDGET HIGHLIGHTS

revenue. Home sales, however, are not expected to increase in the next fiscal year and values will continue to subdue property tax receipts. Overall, General Fund revenues are expected to cover ongoing costs in the coming decade, as depicted on the following graph:



The forecast assumes that General Fund revenues will increase slightly, almost two percent, in FY 2011-12, assuming unforeseen events do not derail a tepid economic recovery. To project the expenditures, all known changes in personnel and maintenance and operations costs are accounted for. However, the city was still in negotiations with its General Employee association at the time of budget adoption, and the results of those negotiations have not been contemplated in the current ten-year forecast.

The forecast assumes that the city's cost for employee health care will increase by five percent, annually, over the life of the forecast. Pension plan costs are projected to increase by approximately 1.3 percent for miscellaneous employees, due primarily to investment losses sustained by CalPERS in FY 2008-09 and updated actuarial assumptions. Pension costs for safety employees increase in FY 2011-12 by approximately 3.8 percent. The forecast also assumes that \$1.4 million is set aside to stabilize future CalPERS increases or to address unfunded liabilities in both the safety and miscellaneous retirement plans. The forecast further assumes that no new positions are authorized until FY 2013-14. Negotiated salary step increases and cost of living increases between 0.5 percent and 3.5 percent have been added to personnel costs. The contribution from the General Fund to the Infrastructure Replacement Fund is forecasted to remain at 6.5 percent of General Fund revenues. Finally, the forecast includes estimated operating costs for all capital projects in the timeframes shown in the Capital Improvement Program (CIP).

As indicated in the previous graph, the General Fund is balanced for FY 2011-12 and modest surpluses are anticipated after that. However, the fragile economic recovery currently underway faces many threats in the coming years and, while the ten-year forecast employs conservative estimates, these modest surpluses could evaporate if the economy stumbles.

## OPERATING BUDGET

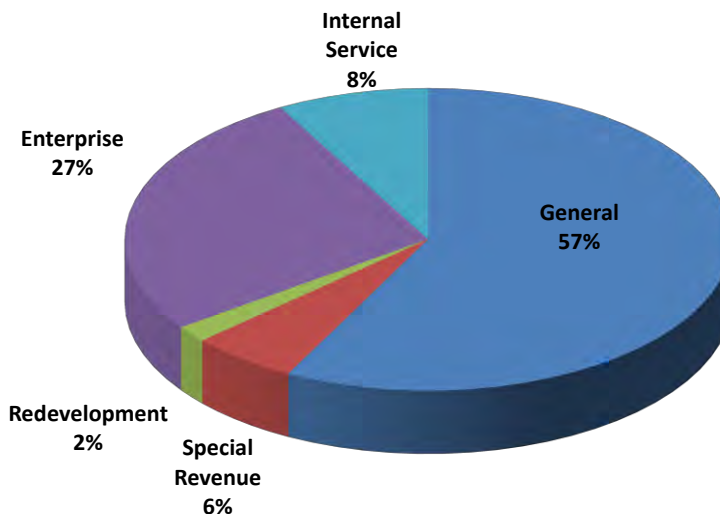
### Revenue Projections

The city's operations are divided into various funds. Each fund has been established because of certain restrictions placed on the use of the resources received by that fund. Any unrestricted funds are placed in the General Fund. Estimated revenues for the city's five fund types are shown on the accompanying graph.

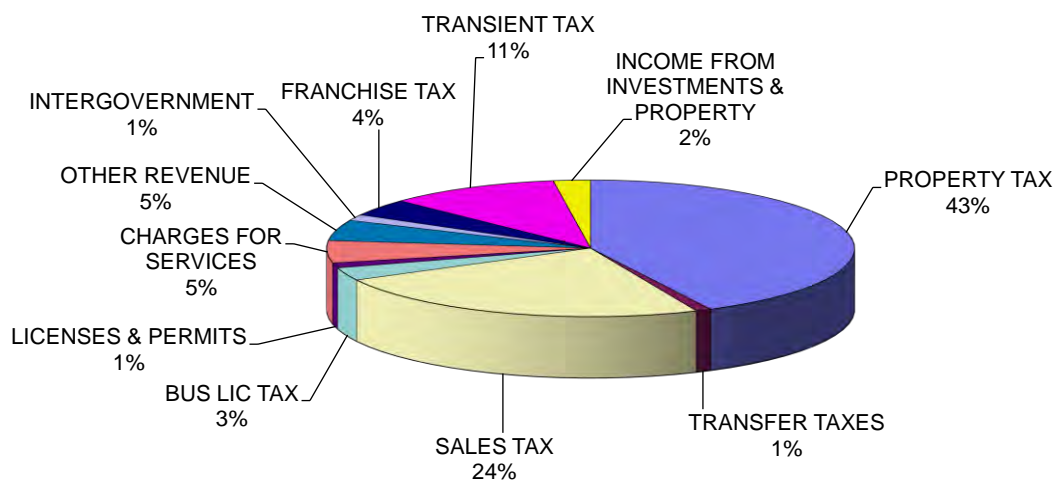
#### **General Fund**

The fund receiving the largest slice of the revenues is the General Fund, with estimated revenues of \$113.6 million for Fiscal Year 2011-12. The General Fund pays for most of the city services available to city residents. The majority of the General Fund revenues are derived from taxes. The following graph illustrates the sources of revenue to the General Fund.

**2011-12 OPERATING REVENUES  
BY FUND TYPE  
\$197.2 MILLION**



**2011-12 GENERAL FUND REVENUES  
\$113.6 MILLION**



Property taxes, at \$48.3 million, are the largest General Fund revenue. The city receives only about 18 percent of the property taxes paid by its citizens. The remainder of the tax goes to the school districts, the state, and other various agencies.



## **CITY OF CARLSBAD BUDGET HIGHLIGHTS**

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Sales tax is the second largest source of revenue for the General Fund. Sales taxes are estimated to bring in \$27.1 million for Fiscal Year 2011-12. Automobile and retail sales are the most significant contributors to the category of sales tax.

Transient occupancy taxes (hotel taxes) are estimated at \$12 million and are the third largest revenue source for the city. Franchise taxes, transfer taxes, and business license taxes make up the remaining \$9.2 million in tax revenues estimated to be collected in Fiscal Year 2011-12.

Intergovernmental revenues are revenues collected by the State and other governmental agencies and allocated to the city based on a formula. Examples of intergovernmental revenues include motor vehicle license fees, State mandated cost reimbursements, and homeowner's exemptions. Intergovernmental revenues are estimated at \$1.6 million for the upcoming year.

Licenses and permits account for \$1.4 million of the General Fund revenues and include building permits and other development-related permits. Charges for services are estimated to be \$5.9 million and include fees for engineering, planning, building, recreation, and ambulance services. Income from investments and property are estimated at \$2.6 million.

Other General Fund revenue sources include charges collected from other departments, fines and forfeitures, and miscellaneous revenues. Those sources total \$5.6 million

### ***Special Revenue Funds***

Revenues from Special Revenue funds are estimated at \$11.3 million for Fiscal Year 2011-12. Funds collected in this category are legally restricted to specified purposes. Examples of funding resources include donations, grants, and special assessments. The types of functions supported with Special Revenue funds include programs such as Section 8 Housing Assistance, Housing Trust Fund, Community Development Block Grants (CDBG), and maintenance and assessment districts.

### ***Enterprise Funds***

Enterprise funds revenues make up the second largest revenue group, totaling \$52.8 million. Enterprise funds operate similar to a business in that they charge fees to cover the cost of their services. Examples of the city's enterprises include water and wastewater services and solid waste management.

### ***Internal Service Funds***

Internal Service fund revenues, projected to be \$16 million, are derived from charges to the city programs that benefit from the services rendered. The funds collected must be used specifically to support the internal service. Examples of the city's Internal Service funds include General Liability, Self Insured Benefits, Information Technology, Workers' Compensation, and Vehicle Maintenance and Replacement.

### ***Redevelopment Agency***

Redevelopment Agency revenues, estimated at \$3.5 million, come mainly from property taxes collected within the redevelopment area. Carlsbad has two redevelopment areas. The original area consists of 204 acres located in the downtown "Village Area" of the city. The second area encompasses the land on which the Encina power plant is located as well as additional parcels south of the plant. Funds collected within the redevelopment areas must be used to repay the debt incurred and administration of the Agency.

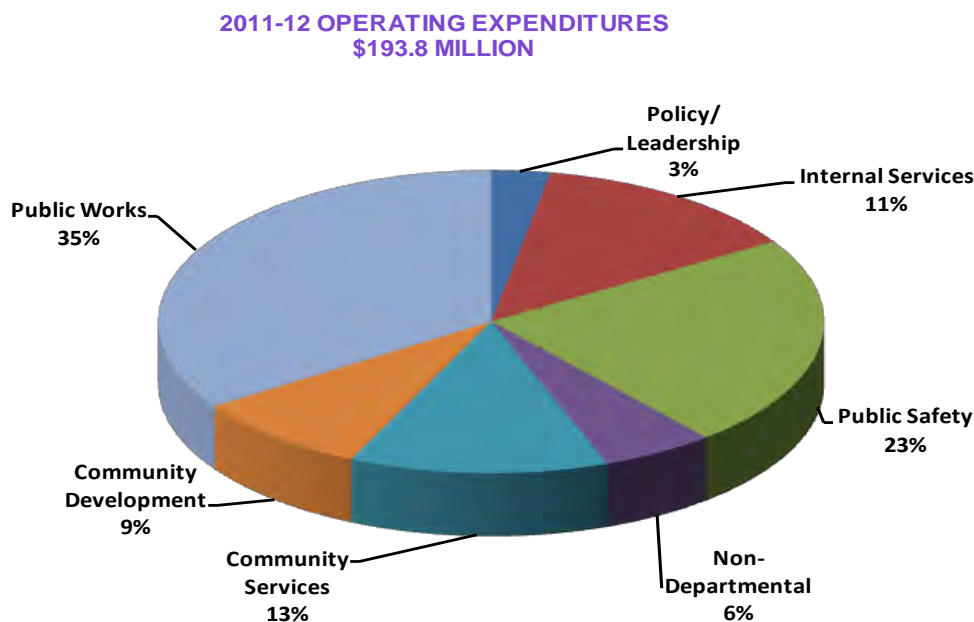
### Operating Budget By Program

The total Operating Budget for the city for Fiscal Year 2011-12 equals \$193.8 million, which is approximately 2.9 percent higher than the FY 2010-11 Adopted Budget. The changes in each of the city's programs will be discussed below. The Operating Budget is categorized by main functional area. Six functional areas that represent the key businesses of the city have been identified. The graph on the following page shows the Operating Budget for each of the functional areas.

Total funding allocated for the Policy and Leadership Group for 2011-12 is 5.3 million. This group encompasses all elected officials and the chief executive offices for the city. These include the offices of the City Council, City Manager, City Clerk, City Attorney, and City Treasurer, as well as the communications and records management functions.

Internal Services, with a budget of \$21.2 million, includes finance, purchasing, human resources, information technology, property and environmental management, fleet maintenance and replacement, self insured benefits, risk management, and workers' compensation. These areas mainly provide services to internal city departments.

Public Safety services are funded at \$45.3 million and include all of the police and fire programs such as police patrol, vice/narcotics, juvenile diversion and DARE programs, fire emergency operations, fire prevention and emergency preparedness.



Community Development, with a budget of \$17.3 million, provides the services that guide and oversee the planning and development of Carlsbad as depicted in the city's General Plan. The General Plan is the base document that expresses the goals and public policy relative to future land use. It acts as a "constitution" for development and is the foundation upon which all land use decisions are based. Also included under Community Development are building and code enforcement, volunteer programs, neighborhood services, and housing and redevelopment programs.



## CITY OF CARLSBAD BUDGET HIGHLIGHTS

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Community Services, with a budget of \$25.0 million, is made up of the library, parks and recreation, cultural arts, and seniors programs. These programs are provided to a wide range of people and assist in their education and cultural development.

The functional area requiring the largest amount of funds is Public Works, with a budget of \$68.7 million. Public Works is responsible for the building and maintenance of all of the city's streets and roadways, and for the provision of utility services. It is comprised of the transportation department, lighting and landscaping districts, as well as utilities services, such as the water, sewer, and solid waste enterprise funds.

The Non-Departmental and Contingency accounts total \$11 million and include programs benefiting the city as a whole, such as community promotions, community contributions, assessment services, transfers to other funds, and the City Council's contingency account. Included in the non-departmental group is a \$7.4 million transfer to the Infrastructure Replacement Fund. This program sets aside funds for the replacement of the city's base infrastructure. The City Council contingency account, which is available for emergencies and unforeseen program needs that arise during the year, is budgeted at \$500,000. The contingency account amounts to less than 0.5 percent of the FY 2011-12 General Fund budget.

### **Staffing**

The FY 2011-12 Operating budget reflects a total decrease of 14.75 full-time positions. The net increase in hourly staff totaled 0.8 of part-time staff. These changes result in a city workforce of 684.25 full and three-quarter time employees and 139.74 hourly FTE, although three of the full-time positions are not funded in the FY 2011-12 budget. The staffing changes in each of the city's programs are discussed more fully in the Operating Budget Overview.

## **CAPITAL IMPROVEMENT PROGRAM**

The City of Carlsbad's Capital Improvement Program (CIP) is a long-range planning document, which outlines the expenditure plan for current and future capital projects and the corresponding revenues to pay for those expenditures. Projects in the CIP consist primarily of new construction or major maintenance and replacement of city facilities such as parks, roads, civic facilities such as libraries, police and fire stations, and sewer, water, and drainage facilities. The Capital Improvement Program for 2011-12 totals \$64.7 million in new appropriations and an estimated \$179.1 million in continuing appropriations, for a total appropriation of \$243.8 million. The city's Capital Projects are discussed more fully in the Capital Improvement Program section. Some of the notable capital projects include the following:

### **Park Development Projects**

- **Alga Norte Park and Aquatic Center** – The park site is located on 32 acres in the Southeast Quadrant along Poinsettia Lane between El Camino Real and Alicante Road. Planned amenities include lighted ball fields, soccer fields, picnic areas, tot lots, a skate park, a dog park, restrooms, parking facilities, and an aquatic center featuring a 56-meter competition pool, a 25-meter 12-lane instruction pool, and a warm water therapy pool and a water play area for toddlers. The swimming pool complex was one of the projects approved by the voters through Proposition C in 2002. Construction is expected to begin in the summer of 2012. The total cost of the park and aquatic center is currently budgeted at \$50.4 million.



## CITY OF CARLSBAD BUDGET HIGHLIGHTS

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- **Leo Carrillo Phase III** – Phase III includes the renovation of additional buildings, construction of additional restrooms and an arboretum area. The total cost of the remainder of Phase III is approximately \$1.9 million and design is expected to begin in FY 2014-15.
- **Poinsettia Park Community Center** – Phase III of this 42-acre park includes amenities such as a community facility, gymnasium, enclosed soccer field, tot lot, picnic areas, tennis complex, clubhouse, stadium court and additional parking. The cost is expected to be approximately \$15 million. The timing of the design is scheduled to begin in FY 2013-14.

### ***Civic Projects***

**Maintenance and Operations Center** – The city has planned the construction of a Maintenance and Operations Center (M&O Center) to physically bring together the maintenance functions to a single facility. The M&O Center will be located on the available property adjacent to the Fleet Maintenance/Public Safety Center. It is anticipated that the M&O Center will include offices and support space, workshops, outside storage, warehouse and parking to accommodate the city's maintenance personnel. This combined group of maintenance functions includes segments of the Utilities, Transportation, Parks and Recreation, and Property and Environmental Management departments. The cost of the project is approximately \$28.1 million.



- **Relocation of Fire Station No. 3** - Fire Station No. 3 is currently located at the corner of Chestnut and Catalina. As the city grows eastward, relocation of this station is needed to help ensure the six minute response time. The site for the new station is in Robertson Ranch. Total cost is projected at \$9.2 million.

### ***Street Projects***

- **Traffic Signal Program** – In keeping with the City Council's goal of improving traffic flow, the FY 2011-12 CIP includes funding for the new Traffic Signal Program project. This project will upgrade traffic signal hardware and software in conjunction with the creation of a communications network that will be used to manage traffic signal operations and thereby improve the flow of traffic. A total of \$5.6 million has been included in the CIP with a \$2.3 million appropriation in FY 2011-12.
- **Avenida Encinas Widening** - Widening to full secondary arterial standards along Avenida Encinas from Palomar Airport Road to just south of Embarcadero Lane is scheduled for design in FY 2012-13. The CIP includes \$5.4 million to fund this project.
- **El Camino Real Widening** – There are a number of projects that are scheduled over the next five years that will focus on the widening of El Camino Real to prime arterial roadway standards. The projects include widening from Cassia Road to Camino Vida Roble, Arenal Road to La Costa Avenue, Lisa Street to Crestview Drive and Tamarack to Chestnut. The total estimated costs for these projects are \$19.5 million.

## CITY OF CARLSBAD BUDGET HIGHLIGHTS

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- **Pavement Management** – Carlsbad's local streets are maintained on a regular cycle to ensure a good riding surface and to extend the life of the street. Part of the maintenance program is the sealing and overlay of the existing street surface. In addition, any problem areas are addressed as they are identified. The FY 2011-12 CIP has \$3.7 million budgeted for this program.
- **Poinsettia Lane Reach E** - This project includes completion of the final link along Poinsettia Lane between Cassia Road east to Skimmer Court. The total cost is approximately \$13.9 million and the CIP program funding for design is scheduled for FY 2013-14.

### *Sewer, Water, and Drainage Facility Projects*

- **Vista/Carlsbad Interceptor & Agua Hedionda Lift Station Replacement** – This project consists of a set of individual projects that will ultimately construct a parallel sewer interceptor system to accommodate existing and future sewer flows from the cities of Vista and Carlsbad. The individual projects include a main in Jefferson Street, replacement of the Agua Hedionda Lift Station, and a main from the lift station to the Encina Wastewater Facility. The overall total cost estimate for this set of projects totals \$55.1 million, of which \$17.3 million is to be funded by the City of Carlsbad, with the remainder of \$37.8 million to be funded by the City of Vista.
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- **Wastewater** – Other major wastewater facilities scheduled for construction or replacement within the next five years include:
    - Buena Interceptor Sewer Improvements
    - Buena Vista Lift Station Improvements
    - Home Plant Lift Station Replacement and Forcemain
    - Simsbury Sewer Extension
  - **Water/Recycled Water Lines** – Major water/recycled water facilities scheduled for construction or replacement within the next five years include:
    - Maerkle Floating Cover Replacement and Pump Station Improvements
    - Tri-Agencies Water Transmission Pipeline Replacement
    - Reservoir Repair/Maintenance Program
    - 12-inch Recycled Water Transmission Main – Carlsbad Water Recycling Facility to Chinquapin
  - **Maerkle Reservoir Storage** – Construction of a buried 16 million gallon water storage reservoir next to the existing reservoir is planned in order to provide additional emergency storage and meet the 10-day storage criteria based on ultimate demands. The total cost is estimated at \$14.8 million.
  - **Agua Hedionda Channel** – The project includes dredging approximately 40,000 cubic yards of accumulated sediment from the Agua Hedionda and Calavera Creek Channels adjacent to the Rancho Carlsbad Community. Current cost estimates have been updated to include the need to acquire and restore 6.53 acres of wetland mitigation. The total estimated cost of the project is \$6.0 million. The funded portion of this project, however, is \$5.5 million, and staff is pursuing grant funding to make up the difference.



## **CITY OF CARLSBAD BUDGET HIGHLIGHTS**

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### **SUMMARY**

The FY 2011-12 budget focuses on the sustainability of core city services at their current levels by ensuring that expenditure budgets remain in line with anticipated revenues. While the City of Carlsbad has a diverse economic base, it is not immune to the weak economy. Over the past several years, the city has addressed the budgetary challenges brought on by the recent recession and has taken deliberate measures to continue to allocate resources in a responsible manner, minimizing the impact to users of city services.

National, state, and local economies have shown slight growth over the last year, but at a very slow rate. Concerns linger over high unemployment levels and uncertainties in the housing market. Given the current economic concerns, the city has developed a balanced budget for FY 2011-12. The budget assumes no growth and should only have minimal impact on the provision of core city services to the citizens and visitors of Carlsbad. No new programs, services or positions are proposed to be added in the coming year.

The City of Carlsbad continues to be a fiscally conservative and responsible city. Long-term planning and foresight by the City Council and residents have provided a sound economic base for the city to positively weather the current changes in the economic environment. The ten year forecast continues to be an important tool for the city to help project changes in revenue in order to adjust expenditures accordingly. In the FY 2011-12 budget, the city has taken into account the long-term impacts of the recession allowing for the creation of a sustainable community, while continuing to support the quality of life valued by those who live, work and play in Carlsbad.